Canadian Hidrogas

RESOURCES LTD

OUR GROWING MARKETS

Canadian Hidrogas Resources Ltd., is an integral part of an industry with a planned and contracted plant expansion of 20% in rated capacity over the next five years and this is offset by an even greater energy-use demand factor.

The continental demand for energy has and will increase and we are planning to increase our share of the market in this vital industry.


REGINA
POINTS OF ORIGIN

CANADIAN HIDROGAS RESOURCES LTD.

Canadian Hidrogas Resources Ltd., is the parent corporation of Hidrogas Limited, which began in 1966. Fortunately our history is one of success. (See charts page 11.)

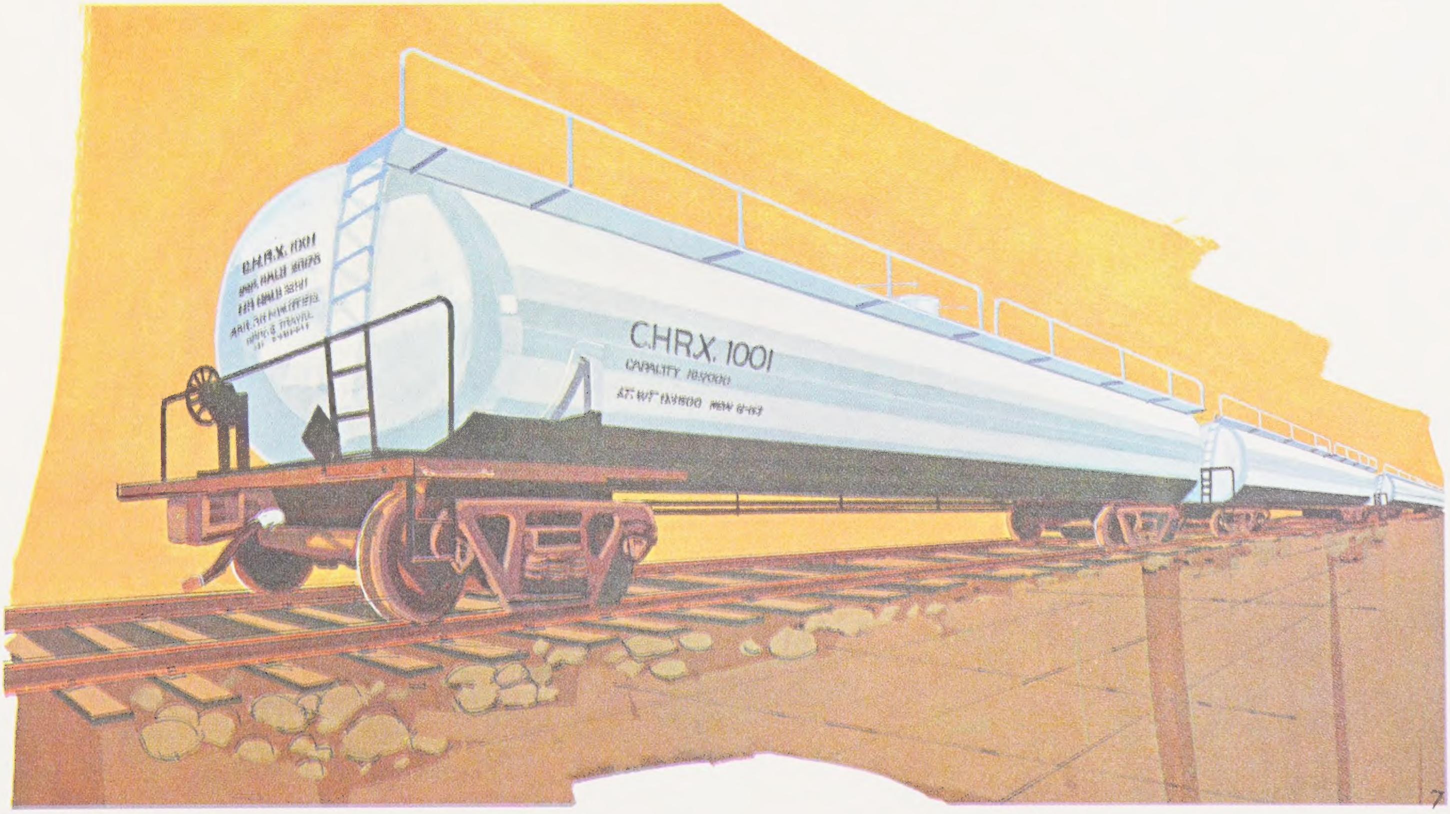
This growth is primarily the result of a knowledge of the LPG segment of the industry, personal contact with both suppliers and end-users, along with dedication and drive on the part of corporate personnel.

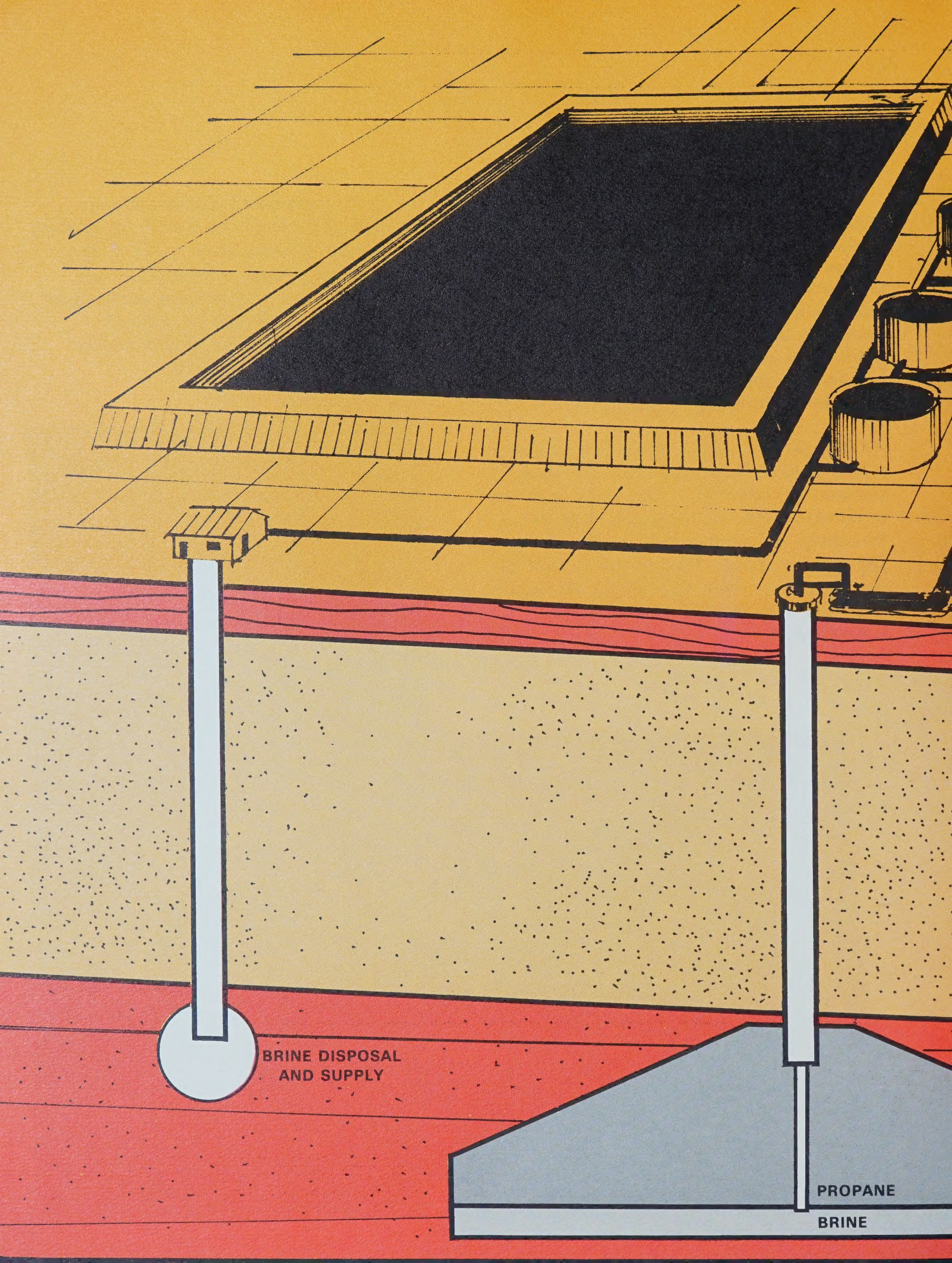
Careful planning and the implementation, to fruition, in our present market position, has meant the acquisition of railway tank cars (see chart page 11), underground storage, and traffic department and sales thrust, all of which must be kept in balance, to provide the necessary services and increase profitability. Each of these functions are described separately elsewhere in this brochure.

Our present position in the market place, of 8% of the Alberta production-take down, has been accomplished in five years; however, concomitant with this mathematical growth, the stature of Canadian Hidrogas Resources Ltd. has also grown. Such growth is proof of our acceptance within the industry throughout North America, and this achieved stature is accelerating.

In the beginning Canadian Hidrogas Resources Ltd. faced the problem of survival along with corporate growing pains; these normal deterrents are well behind us and now, with maturity, experience, and involved dedication, we know that our planned expansion to 11% of the product-market penetration is well within our corporate reach.

The resource properties of Canadian Hidrogas Resources Ltd. (described elsewhere), we believe will place their assets, earnings, and profit retention along with those of the LPG marketing operation to increase overall growth and net worth.

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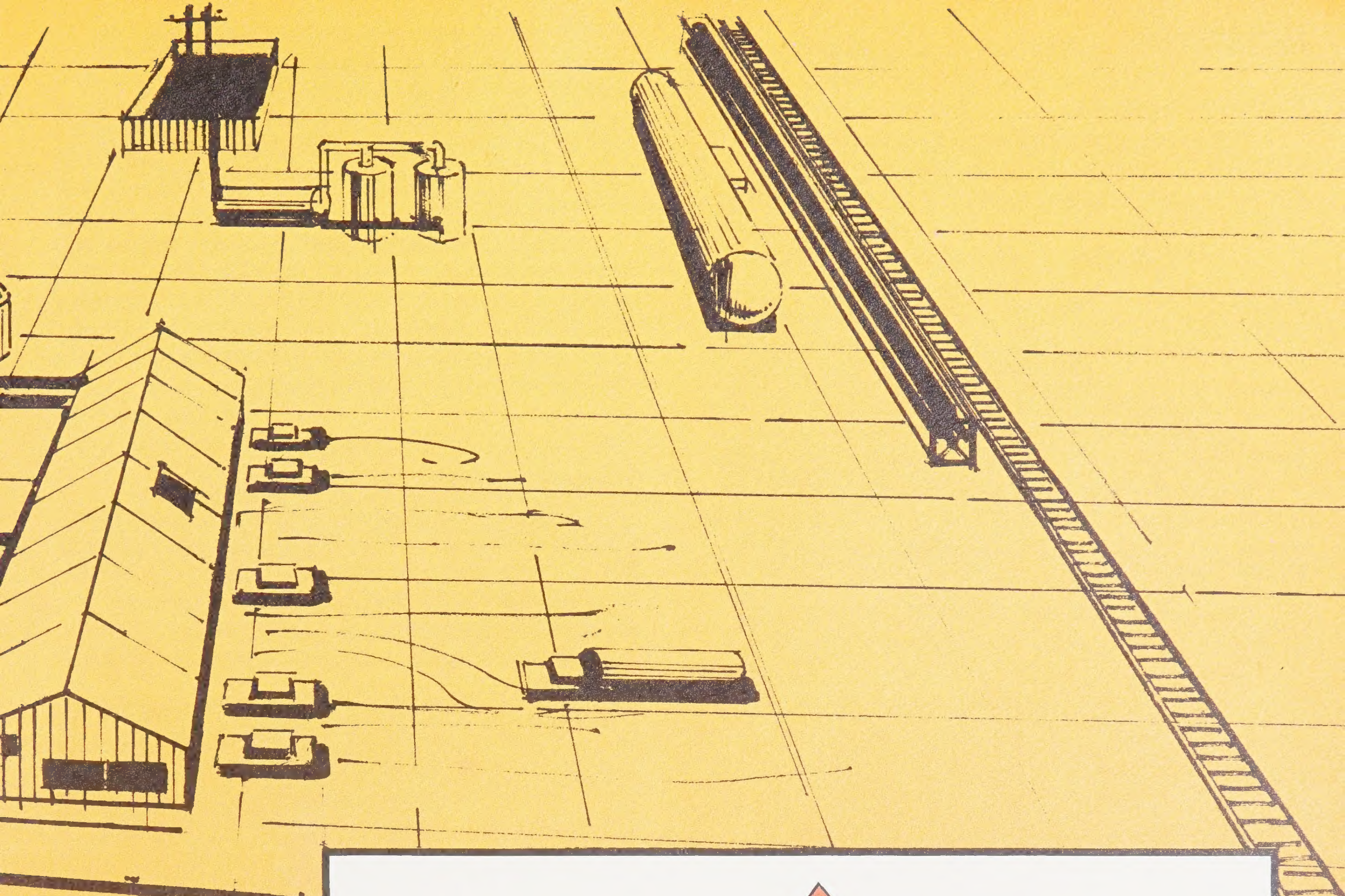
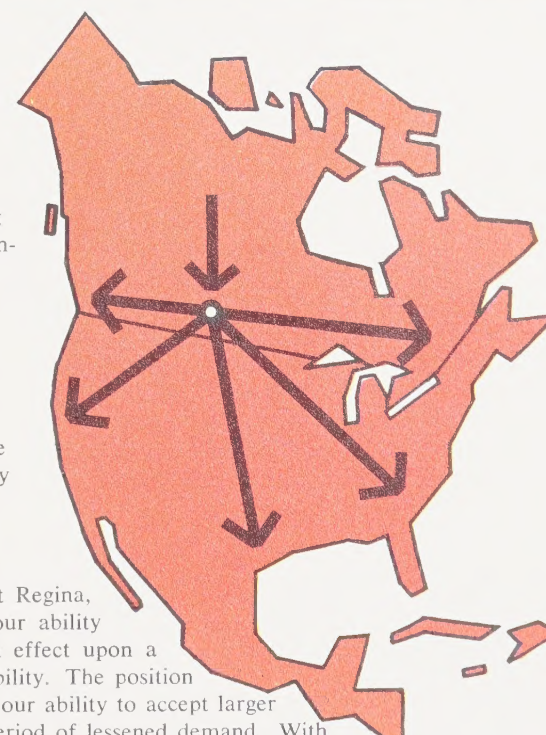


UNDERGROUND STORAGE



The continued necessity toward taking a position in the LPG industry, to be considered acceptable for large contracts, is the mandatory accumulation of an inventory.

Now, Canadian Hidrogas Resources Ltd. has an inventory storage position with a total holding capacity, upon completion, of 2,000,000 barrels. This is more than 30% of the existing Canadian capacity for underground storage and equals 66% of our product-barrel sales for the year to August 31, 1971.

These underground storage caverns at Regina, Saskatchewan, will significantly improve our ability to accept larger contracts with a resultant effect upon a greater sales volume and increased profitability. The position with our suppliers will be enhanced due to our ability to accept larger quantities of LPG production during the period of lessened demand. With optimum inventory accumulation to be shipped out during the time of maximum demand and on the optimum price schedule.

Canadian Hidrogas Resources Ltd. have planned and will implement their program to have available storage capability to match the production growth of LPG and will balance this growth along with their own corporate share of the market, which planned forecasts are to secure 11%, up from the present 8%, of the Alberta production.

HOLDINGS

Resource Properties

The resource properties now under control and ownership by Canadian Hidrogas Resources Ltd., that are contributing income will continue to contribute most significantly to the corporate growth.

Canadian Holdings of Oil and Gas in Alberta.

Location	Ownership	Gross Wells	Net Wells	Acreage
Black Butte	25 %	2	½	7,758
Princess	37.5%	2	¾	7,800
Aden	50 %	1	½	620

Canadian Holdings of Coal Properties

Sheep River	100 %	1,280

Foreign Holdings with Gross Over-riding Interest
U.S.A. - Montana

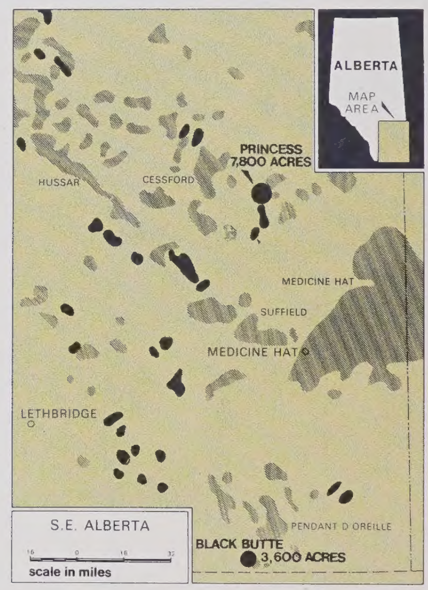
Location	Gross Acres	Net Acres
Golden Dome	16,000	80
Gilford	24,000	80
Columbus	20,000	100
Rudyard	10,222	10,222

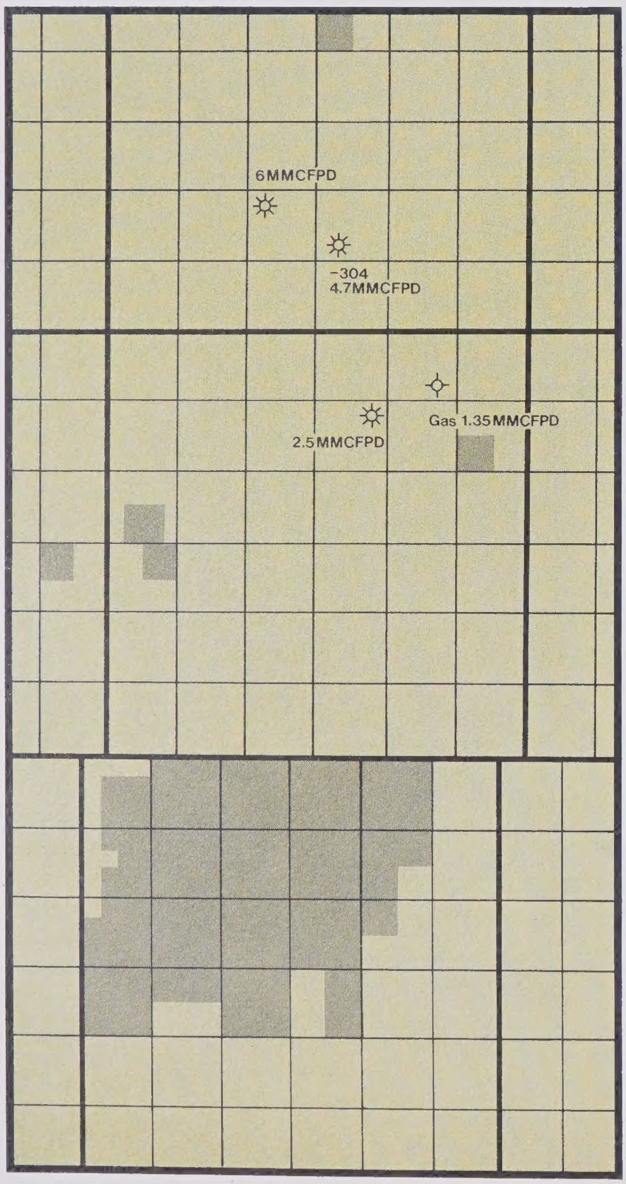
Our resource properties have been acquired at reasonable cost, and as planned extraction of these properties continue and develop they will add to our product capability, increase our sales volume, and have a corresponding effect upon earnings and most significantly upon profit retention and increase of working capital.

Canadian Hidrogas Resources Ltd. has been invited and plans to accept this invitation to commercial opportunity and its concurrent responsibility to proceed with a drilling program on the Alberta Properties, to prove up and produce from the Princess reserves. Our interest is 37.5% on 7,800 acres.

Probable Reserves

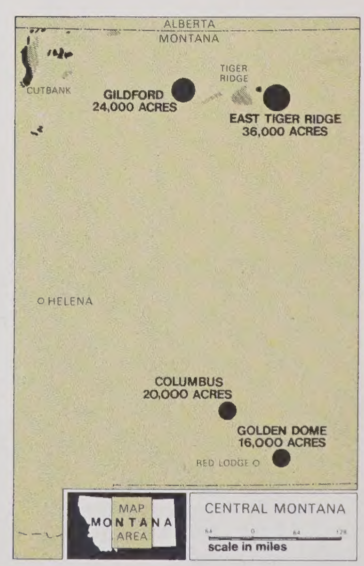
"Experience in the area shows that a 10 year life is a reasonable expectation for a shallow well producing from a shaley sand. This well should be able to deliver at a rate of 90 Mcf/day. The probable reserves in the remaining 6 quarter sections of the drilled sections therefore are $6 \times 90 \times 365 \times 10 = 1{,}971$ MMCF.





Rudyard Area
Hill County Montana

Hidrogas holdings



"There are good possibilities for further gas accumulations on Hidrogas lands in this area which are reported to consist of 37½% working interest in 7,800 acres. The land is located in an area of proven production, much of it from the 2 W.S. zone. The 2 W.S. zone in the 11-27 well is given some encouragement by logs and could be tested by drilling out the cement plug. Other potential horizons which produce in the area are the 2nd, 3rd and 4th Bow Island sands, the Mannville sands, the Sawtooth sand, and the Mississippian. An extension of the reasoning in determining probable reserves would lead to a possible reserve value in the undrilled 6,520 acres of 13.386 BCF."*

*Blain, Binnie and Associates Engineering Ltd., December 1971

A probable value of $1,560,000 or more at 12 cents per MCF. Present wellhead prices are seventeen cents per MCF.

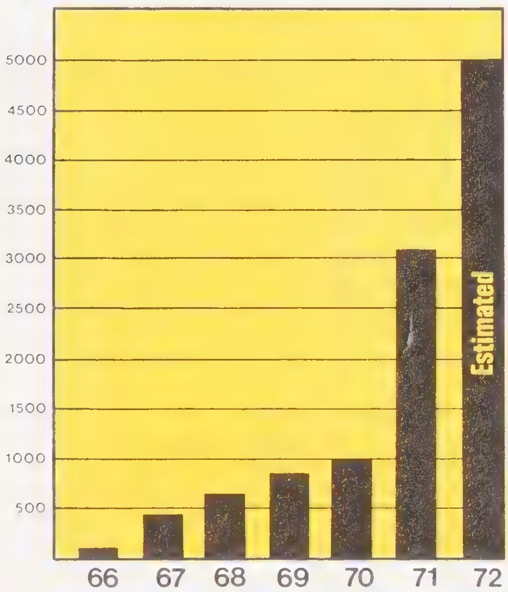
Canadian Hidrogas Resources Ltd. is instigating a program that will establish a drilling syndicate (so called) and subject, in part, to the financial climate, intends to activate the physical drilling, testing and proving of the reserves in the spring of 1972 on their foreign properties.

It is important to note that the success of the drilling program will place a lesser dependence upon profits from L.P.G. marketing and will increase production revenues.

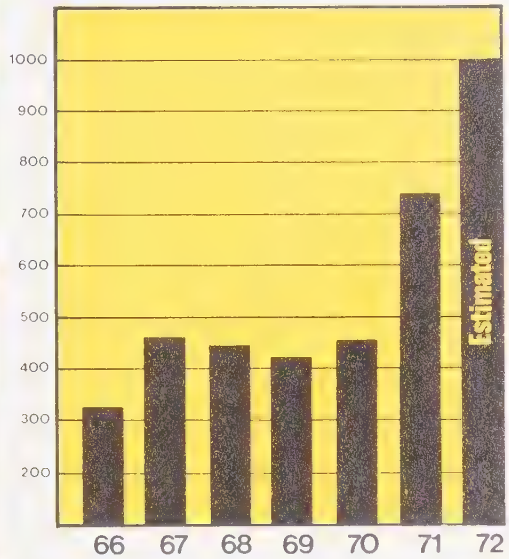
Of interest is the fact that our Montana resource properties, 100% owned by Canadian Hidrogas Resources Ltd., is adjacent to, and in the area of successfully completed gas wells producing from 1.35 MMSCFD to 6MMSCFD on test.

As shown under our Canadian holdings, the inclusion of 1280 acres, 100% owned by Canadian Hidrogas Resources Ltd., of coal in the accessible foothills of Alberta, with possible net tonnage of good coking coal of more than 75,000,000.

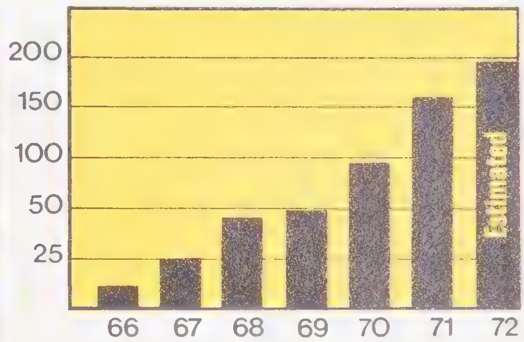
We are mindful, however, that some time must elapse, plus an increased demand for coal before this resource will contribute to profitability. In the meantime, monies will be allocated to prove up the potential of the Canadian Hidrogas Resources Ltd. coal properties.



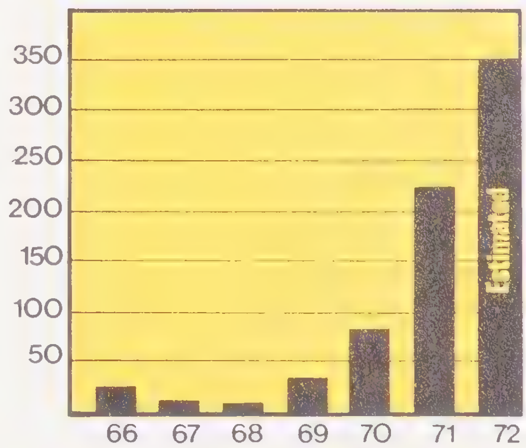
BBL'S LPG 000's



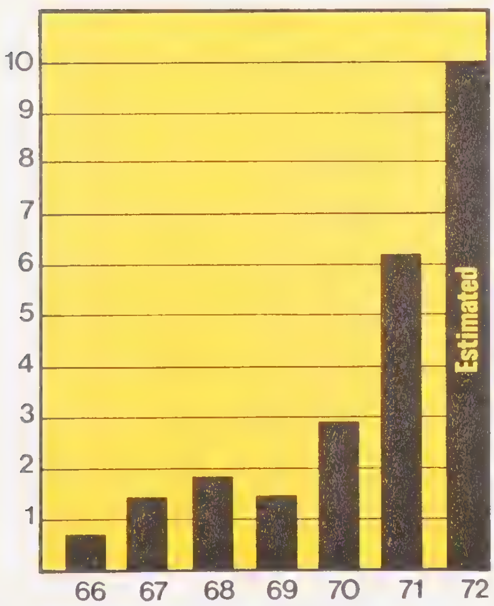
Sales per employee $000's



TANK CARS (Railway)



INCOME $000



SALES $000,000

CHARTING THE FUTURE

Unlike the ancients, whose knowledge of world geography was through the use of historic maps and then by adventure only, exploring beyond the known and achieved limits to extend their domain. Today, charting or forecasting is much more scientific. The unknown is not a myth inhabited by strange creatures. It is, however, a land known to exist and reachable by prudent planning; the logistics may be estimated within carefully defined tolerances and the goals to be attained measured for quality and quantity. If the results of these adventures in trade are considered worthy of effort versus yield, then only the implementation of the journey and the corporate resources in men and money allocated and applied with the judgment and prudence of former experience is required.

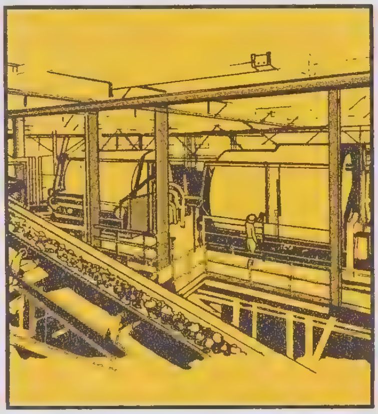
Canadian Hidrogas Resources Ltd. are using their historic charts of past achievements (see elsewhere) to plot their future and are allocating their resources to implement these readily attainable goals.

"Decisions make resources!" Also profits!

THE FUTURE

The future of Canadian Hidrogas Resources Ltd. is indeed bright; we are fortunate to belong within an industry where the demands for our energy-product are clearly defined. This demand is clearly accelerating.

The productive sector is also planning an increase in capability. Since industry and governments are aware of the increased use-demand, many reports and studies have been prepared, disseminated, and very well publicized so that a sensible awareness by the general public will pave the way for an appreciation of the real worth of this type of energy in the marketplace.



We believe that these factors and others will contribute to a price strengthening and have greater predictability of profit growth.

In addition to the political-economic structure that exists on the domestic front, offshore contracts are showing an increased awareness of the value of resource energy to those countries who presently possess these natural resources in abundance. These groups are constantly increasing their wellhead net-back and probably will continue to do so. The continuance of such offshore thinking will effect advantageously the potential to the growth and increased profitability of Canadian Hidrogas Resources Ltd.

Technological advances will no doubt occur and these too should make L.P.G. either more competitive and/or open up additional markets.

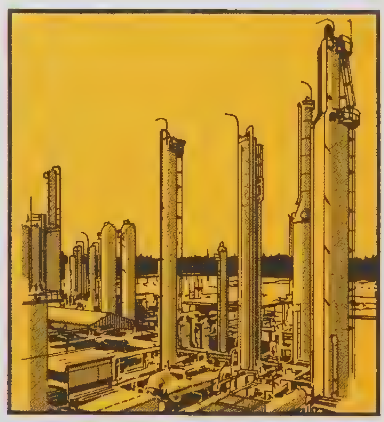
The availability of additional Canadian domestic reserves is dependent upon an increased amount of drilling, and this calls for cash funding. Here, governmental tax policies will have a profound effect to increase or retard the rate of growth. We hope that the Canadian Administration will permit Canadian Corporations to remain competitive with their non-Canadian competitors both at home and abroad.

The extraction of energy by the resource industry requires large infusions of risk capital and then, if successful, an even greater amount of debt financing. Investors will be attracted to our industry only if the risk-yield ratio is equal to or better than alternative opportunities.

Corporations such as Canadian Hidrogas Resources Ltd., whose principal business is within the oil and gas industry, must be permitted to retain and accumulate earnings so that they, too, may position themselves to pro-rate the risk with their investors.

Opportunities are continually being made available to Canadian Hidrogas Resources Ltd. and are also being sought and explored. Senior management, by past experience, has proven their ability to appraise and proceed to accept and develop those opportunities that conform to the mid and long term program of acquisition and progress. Examples are given, in part, under various headings, elsewhere in this report.

The forecasts made by Canadian Hidrogas Resources Ltd. have considered only normal and planned growth We have not considered, in fact we have discounted, any abnormal 'boom psychology'. We are cognizant of the historical effect of several 'booms'. Should these come about, we shall exploit them and such an effect will be advantageous to an accelerated growth perhaps well beyond our more scientific forecast.



We are programmed to pursue growth; in the L.P.G. marketplace, with our resource properties, and also within the opportunities presented to us. We will allocate our monies and men to optimum use.

THE FUTURE

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CANADIAN HIDROGAS
RESOURCES LTD.

REPORT TO ALL SHAREHOLDERS

Gas Development & Exploration:

Your Company is again pleased to report that two follow up wells have been drilled in the last few days; one in the Princess field and one in the Grassland field. Both of these development wells were tested successfully and completed. In the Princess field the well was subjected to an absolute open flow test for four days and produced a stabilized flow of 225 MCF per day against a back pressure of 153 psig. This is very encouraging and leads us to believe that because of the wide spread occurances of the Milk River formation that it is quite probable that the entire 7,800 acres in which your Company has a 25% - 37½% working interest could be productive. Should this be the case the significance of this is that it would result in a gross income to the Company of the order of $1,500,000.00 over the next ten years.

The step out well in section 4 twp. 67 rge. 18 in the Grasslands field flowed gas at the rate of 1300 MCF per day from the Viking Formation on a drill stem test. The logs show the Viking to be present in the previous well drilled on section 7 Twp. 67 Rge. 18. This test confirms that both the Viking and

Suite 2972, One Calgary Place, 330 - 5 Ave. S.W., Calgary 1, Alberta / Phone 264-7290

colony formations exist over a substantial portion of the 31 section farm out. Eighteen of the thirty one sections have already been earned. Your Company has a 50% working interest in the area. A reserve determination will be undertaken and a gas contract entered into for the sale of this production. This area is approximately eight miles from existing pipelines. Should the remaining area to be earned prove equally productive the Company could expect gross earnings up to $250,000.00 per year from this field alone.

We must also report that your Company has acquired a 100% interest in 11,000 acres of prospective gas production in the Hill County of the State of Montana; some of this acreage is adjacent to completed gas wells where flows up to six million cubic feet per day have been tested. All of these land holdings lie on the same gas trend. We have been offered a contract for the purchase of any gas discovered on these lands by Northern Natural Gas Company who will begin taking gas or paying if not taken by July 1, 1972. In addition they will advance funds for the development of this area to be repaid out of production. Exploration drilling will be undertaken on these lands later in the year.

Mineral Exploration:

Your Company has obtained the services of Mr. A.O. Hall, a professional Mining Engineer, by way of a partnership agreement to do Mineral Exploration. Mr. Hall has over 22 years

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of experience in the Province of British Columbia and the Yukon, with major mining and exploration Companies. Mr. Hall will be reviewing some areas of known mineral deposits as well as directing new exploratory work. The basis of the partnership is eighty per cent to the Company and twenty per cent to Mr. Hall. We look forward to Mr. Hall coming up with some exciting stakings before the end of the summer.

Acquisitions:

The Company is presently actively negotiating for the acquisition of three seperate companies; two Oil and Gas producting Companies and one Utility. The Oil and Gas Companies both have production, producing revenues presently, and both have tax loss positions. They are both privately held Companies. The Utility Company is in the distribution of natural gas and propane. It is located in the United States and has presently filed an application with the Securities and Exchange Commissions seeking and exemption from competitive bidding. When this order is received we will attempt to finalize our negotiations as soon as possible. The acquisition of this Utility would have considerable effect in increasing the stature of the Company. We shall keep you advised as negotiations proceed on these acquisitions.

INTERIM REPORT:

Our Interim Report will be mailed to the Shareholders

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in the next few days. This report will cover the propane and butane marketing operations as well as the unaudited financial statements for the first six months ending February 28, 1971. The marketing volumes held up very well during the current season, and it is expected that this will be reflected in increased earnings.

Respectfully submitted
on behalf of the Board,

Evan Bodrug

Evan Bodrug - President

EB/sb

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS SIX MONTHS ENDED FEBRUARY 28, 1973

(with comparative figures for

	1973	1972
Sales and operating revenue	**$4,669,454**	$3,928,388
Freight	**1,460,220**	1,617,826
Net Sales and Operating Revenue	**3,209,234**	[illegible]
Cost of sales	**2,808,263**	2,136,333
Gross Profit	**400,971**	174,229
Expenses:		
Operating, administrative, and general	**138,640**	114,188
Interest on long-term debt	**6,971**	7,903
Interest — other	**20,363**	18,248
Depreciation and depletion	**4,220**	4,421
Total expenses	**170,194**	144,760
Income from operations	**230,777**	29,469
Net loss of unconsolidated subsidiary	**21,972**	—
Net income before extraordinary item	**208,805**	29,469
Gain on sale of shares of affiliated company	**32,887**	—
Net income for the period	**241,692**	29,469
Deficit at beginning of period	**(108,179)**	(609,715)
	133,513	(580,246)
Credit arising from surrender of shares	—	651,600
Retained earnings at end of period	**$ 133,513**	$ [illegible]
Net income per share (2,339,402 shares issued)	**10.4¢**	1.3¢

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS SIX MONTHS ENDED FEBRUARY 28, 1973

(with comparative figures for 1972)

	1973	1972
Funds provided:		
Net income for the period	**$241,692**	$ 29,469
Depreciation and depletion	**4,221**	4,421
Gain on sale of shares of affiliated company	**(32,887)**	—
Net loss for period of unconsolidated subsidiary	**21,972**	—
Funds provided from operations	**234,998**	33,890
Proceeds on sale of land, rights and permits	—	100,000
Reduction in notes receivable	**2,906**	—
Proceeds on sale of shares of affiliated company	**33,687**	—
Total funds provided	**271,591**	133,890
Funds applied:		
Advances to affiliated and unconsolidated subsidiary companies	**97,480**	19,060
Additions to gas, oil and mineral interests	**2,751**	17,473
Additions to equipment	**2,381**	194
Paid or payable on long-term debt	**10,858**	9,830
Deposits on tank car rentals	**62,049**	29,500
Total funds applied	**175,519**	76,057
Increase in working capital at beginning of period		
Increase in working capital for the period	**96,072**	57,833
(Deficiency) working capital at beginning of period	**(264,407)**	26,809
(Deficiency) working capital at end of period	**$(168,335)**	$ 84,642

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Lowest

CANADIAN HIDROGAS RESOURCES LTD.

#2772 - One Calgary Place
330 - 5th Avenue S.W.
CALGARY, ALBERTA T2P 0L4

INTERIM REPORT
SIX MONTHS ENDED
FEBRUARY 28, 1973

SMITH GRANT MANN ALBERTA
Printed in Canada

TO THE SHAREHOLDERS:

The net income for the first half of our present year has shown a decided improvement over the similar period of one year ago. This income was anticipated at the time of our year-end, as it was felt that the tight control on pricing in the United States was being relaxed.

Since approximately 90% of our propane and butanes find market in the United States, any restrictions imposed by regulation will have an effect on our profit margin. In years gone by, and in the present period, the price on these products experience a natural increase in the winter season. Because of regulation preventing this price increase during the winter season of 1971-72, the budgeted profits were not realized. However, in the winter season of 1972-73, the prices were permitted to rise and we have experienced our budgeted net incomes.

In an effort to ease this impact, your Company incorporated a U.S. subsidiary which would function on both purchases and sales in the United States and thereby be in a position to create a profitable operation not influenced by inter-country movements of product and rules instigated by regulatory authorities in one country or the other. This operation would not be affected by the U.S.-Canadian dollar exchange.

The subsidiary company functioned very well in this field and during this period it was deemed advisable by your management to sell the controlling interest in this company to a progressive U.S. company engaged in the oil and gas exploration and production field.

A sale was consumated with Damson Oil Corporation of New York for 80% of the issued shares with your Company obtaining the rights to manage the operations for a fee and to earn shares in Damson Oil Corporation on a performance basis over the next few years equivalent or better to the net profits realized from this U.S. subsidiary.

There are other working relations between your Company and Damson Oil Corporation which will be very helpful in aiding in the development of the resource activities of your Company. Any shareholders wishing to review the details of this transaction may do so at our Head Office during business hours.

The extreme shortage of energy has caused an extraordinary unusual unprecidented demand for propanes and butanes and, at this writing, the budgeted profits for the remainder of the year would appear to be in excess of those experienced in the past.

The sales volume of our specialty products subsidiary, Pet-Chem Distributing, continues to grow at a satisfactory pace, and all indications are that this subsidiary will experience a very profitable operation in the second half of the year.

We shall continue our operational and management efforts in a manner which we believe to be most beneficial to the shareholders of the Company.

Respectfully submitted,
on behalf of the Board
of Directors,

Evan Bodrug

Evan Bodrug, President.

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED BALANCE SHEET AS AT FEBRUARY 28, 1973

(with comparative figures for 1972)

ASSETS

	1973	1972
Current assets:		
Cash	$ 5,200	$ 521
Accounts receivable:		
Trade	1,385,393	1,105,971
On sale of land, rights and permits	1,742	207,971
Officers and directors	7,473	12,962
Inventory — at the lower of average cost or net realizable value	3,558	303,312
Corporate income taxes	8,664	2,610
Marketable securities	33,687	—
Prepaid expenses and deposits	30,899	15,225
Current portion of notes receivable	105,000	—
Total current assets	1,576,936	1,648,372
8% notes receivable — less amount included in current assets	8,023	—
Receivable on sale of petroleum and natural gas properties	172,248	—
Investment in and advances to unconsolidated subsidiary and affiliated companies	180,759	23,946
Gas, oil and mineral interests — net	85,977	110,282
Equipment — net	186,408	192,042
Other — at cost:		
Deferred tank car rentals	126,745	—
Deposits on tank car rentals	128,380	54,561
Financing expenses	59,100	—
Other investments	200	—
Excess cost of shares acquired over net assets of subsidiary at date of acquisition	252,771	252,771
	567,196	307,332
	$2,777,547	$2,281,974

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current liabilities:		
Bank indebtedness	$ 252,430	$ 307,403
Accounts payable and accrued liabilities	1,471,651	1,237,146
Current portion of long-term debt	21,190	19,181
Total current liabilities	1,745,271	1,563,730
Deferred tank car rentals payable	126,745	—
Deferred income	146,317	—
Long-Term debt:		
12% note payable maturing 1975, repayable at $2,800 per month including interest, less amount included in current liabilities	112,454	133,643
Shareholders' equity:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of $1 each		
Issued and fully paid:		
2,339,402 shares	513,247	513,247
Retained earnings	133,513	71,354
	646,760	584,601
	$2,777,547	$2,281,974

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED STATEMENT OF INCOME AND DEFICIT FOR THE PERIOD SEPTEMBER 1, 1970 TO FEBRUARY 28, 1971

(with September 1, 1969 to February 28, 1970 figures for comparison)

	1971	1970
REVENUE	$4,757,001	$1,484,147
COST OF GOODS SOLD	4,507,829	1,363,478
GROSS PROFIT	249,172	120,669
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	106,454	33,857
INCOME FROM OPERATIONS	142,718	86,812
OTHER INCOME:		
Interest and miscellaneous	350	384
Total other income	350	384
OTHER CHARGES:		
Exploration and development costs on abandoned properties	9,155	—
Total other charges	9,155	—
NET INCOME FOR THE PERIOD	133,913	87,196
DEFICIT AT BEGINNING OF THE PERIOD	851,136	22,031
PROFIT (DEFICIT) AT END OF PERIOD	$ (717,223)	$ 65,165

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE PERIOD SEPTEMBER 1, 1970 TO FEBRUARY 28, 1971.

	1971
FUNDS PROVIDED	
Net income for period	$133,913
Items not affecting cash outlay	
Depletion of producing properties	2,332
Depreciation	10,386
	12,718
Total funds provided	146,631
FUNDS APPLIED:	
Additional advances to affiliated and subsidiary companies	184
Additions to equipment	652
Additions to Gas, Oil and Royalty Interest	29,866
Reduction in Note payable	8,898
Total funds applied	39,600
INCREASE IN WORKING CAPITAL FOR PERIOD	107,031
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE PERIOD	26,006
WORKING CAPITAL AT END OF THE PERIOD	$81,025

LITHOGRAPHED IN CANADA

CANADIAN HIDROGAS RESOURCES LTD.

#2972 - One Calgary Place
330 - 5th Avenue S.W.
CALGARY 1, ALBERTA

INTERIM REPORT
SIX MONTHS ENDED
FEBRUARY 28, 1971

TO THE SHAREHOLDERS:

We are pleased to present to you the Interim Statements of your Company.

During the first half of the year the Gross Revenue amounted to $4,757,001 resulting in a net consolidated income for the period of $133,913. This represents an earning per share of about 4½ cents based on the total of 2,991,002 shares issued. On December 18, 1970, the Superintendent of Brokers of the British Columbia Security Commission signed a resolution deeming it fair and equitable that 651,600 escrowed shares be gifted back to the Company. If these shares are gifted back, the total issued would be reduced to 2,339,402 and on this basis the earnings per share for this period would be 6 cents per share.

The total marketing of propanes and butanes for this period amounted to 1,279,156 barrels. This amounts to 130% of the marketings for the entire previous year.

Abnormal circumstances have affected earnings for this period. The reason is that many sales contracts were made during the time when the Canadian Dollar was pegged. Some of the deliveries under these contracts went to United States customers during this current period. The rising Canadian Dollar in terms of U.S. Dollars cut sharply into our profit margin. Had this not occurred, net earnings would have been about 60% higher. New contracts now being negotiated are based on Dollar Parity. The operating costs are also higher than normal since during this period the Company incurred some non-reccuring charges occasioned by legal and administrative costs for listing on the Vancouver Stock Exchange. Future periods should show lower operating costs.

During the period the Company participated in nine exploratory and development wells. Of these nine, four have been completed as gas producers and five have been abandoned. Further participation in carefully planned exploratory activities will be conducted.

The Company will shortly be arranging for some additional equity financing in order to carry out a broader and more intensive program of development.

We look forward to continued growth in the future and wish to assure our shareholders of the further concentrated efforts of management.

Respectfully submitted on behalf of the Board of Directors,

Evan Bodrug

Evan Bodrug, President.

CANADIAN HIDROGAS RESOURCES LTD.

UNAUDITED CONSOLIDATED BALANCE SHEET AS AT FEBRUARY 28, 1971.

(with February 28, 1970 figures for comparison)

ASSETS

	1971	1970
CURRENT ASSETS		
Accounts Receivable		
— trade	$1,455,027	$ 743,811
— officers & employees	1,731	1,426
Inventory — at lower of cost or net realizable value	11,145	2,382
Prepaid expenses and deposits	5,127	24,564
Sales Tax recoverable	—	574
Total current assets	1,473,030	772,757
INVESTMENTS — at cost	500	500
INVESTMENTS IN AND ADVANCES TO AFFILIATED AND UNCONSOLIDATED SUBSIDIARY COMPANIES	4,861	2,742
MINERAL CLAIMS — at nominal value (1970 at cost)	1	748,065
GAS, OIL AND ROYALTY INTEREST — at cost	79,363	8,890
Less accumulated depletion	12,124	—
Net gas, oil & royalty interests	67,239	8,890
EQUIPMENT — at cost	207,600	3,165
Less accumulated depreciation	20,585	1,400
Net equipment	187,015	1,765
DEFERRED EXPLORATION AND ADMINISTRATION EXPENSE	—	78,887
OTHER — at cost:		
Deposit on Rental of Tank Car	5,255	5,255
Incorporation costs	1,781	1,781
Excess cost of shares acquired over net assets of subsidiary	252,771	252,771
Preliminary engineering work on construction of gas plant and storage facilities	—	51,789
Total other assets	259,807	311,596
TOTAL	$1,992,453	1,925,202

LIABILITIES AND SHAREHOLDERS EQUITY

	1971	1970
CURRENT LIABILITIES		
Bank indebtedness secured	$ 124,623	$ 147,300
Accounts payable & accrued charges	1,250,019	547,890
Current portion of longterm debt	17,363	—
Total current liabilities	1,392,005	695,190
LONG-TERM DEBT:		
12% note payable — repayable at $2,800 per month including interest, less included in current liabilities	152,824	—
SHAREHOLDERS EQUITY:		
Capital Stock:		
Authorized. 5,000,000 common shares with a par value of $1. each		
Issued and fully paid: 2,991,002 shares	1,164,847	1,164,847
Retained earnings (deficit)	(717,223)	65,165
Net shareholders' equity	447,624	1,230,012
TOTAL	$1,992,453	$1,925,202

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Canadian Hidrogas Resources Ltd.
Suite 1000
610 - 8th Ave. S.W.,
Calgary, Alberta T2P 1G5

Canadian Hidrogas Resources Ltd.

INTERIM REPORT
SIX MONTHS ENDED
FEBRUARY 28, 1977

TO THE SHAREHOLDERS

The unaudited consolidated financial statements for the first six months of our fiscal year ended February 28, 1977 reflect the results of government restrictions on the export of heavy crude oil to the United States and the charges on redemption of a debenture and cancellation of a stock option with a debenture holder.

Cash flow from operations was limited to $213 463 or 7.6¢ per share, almost entirely as a result of the marketing restrictions in effect until the National Energy Board started licensing heavy crude oil exports to the United States separately on January 1, 1977. Although cash flow shows improvement, it is not indicative of a full six months at productive capacity. Comparative figures for the prior year were $455 193 or 16.7¢ per share.

Income from operations improved during the second quarter. The $12 276 loss reported for the three months ended November 30, 1976 has been turned around and an income from operations of $61 110 was achieved for the six months period. However, a net loss is reported as a result of transactions that eliminated dilution of shareholders' equity by cancelling debenture holders' rights to convert into 690 000 shares as well as an option to purchase 300 000 shares. Under agreements with the debenture holders, the Company has issued 100 000 common shares, 80 800 of which were treasury shares and 19 200 were previously purchased by the Company. One of the debentures has been repaid and deferred finance charges of $28 367 have been written off.

Oil production sold during the report period was 175 365 barrels compared to 213 769 barrels in the corresponding period a year ago. Production is expected to show improvement in the second half of our year. Most of the wells that were allowed to remain idle to reduce servicing costs during the period of export restrictions have been returned to production. The prior year production included the made up extraordinary underproduction of 27 000 barrels received during that period from the operator at Kitscoty.

Natural gas production during the report period was 332 810 mcf compared to 233 320 mcf in the first six months a year ago. In late 1975, production commenced from the North Coleman gas field and the fifteen new wells in the Princess gas field.

At North Coleman, the recently drilled well has been completed in the producing Mississippian and Devonian gas reservoirs. Evaluation of the porosity in the underlying thrust sheets yielded non-commercial gas and water. Tests of the producing zones indicate excellent deliverability. The well is now being connected to the plant and will provide operational flexibility to better balance production and reservoir drainage. Future production cutbacks when wells are serviced should be eliminated.

The Company drilled a Viking test on the 43 680 acre permit at Portreeve, Saskatchewan in which we have a ten per cent interest. The well is cased for completion in the Milk River sandstone. Production tests of other porous intervals in the well recovered water. Gas leases have been applied for on the property where four Milk River sandstone wells had already been completed.

At Lloydminster, the Company drilled six option wells under a farmout agreement with a major utility company. These wells are being completed for production. The Company has successfully drilled the first two of several new wells for its own account and will start a program of ten re-entry wells immediately.

The experimental thermal project at Kitscoty is progressing. There are now sixty-nine wells in the commercial scale pilot operation applying fire-flooding methods used in California. Two injectors have been ignited and two more will be ignited immediately. The results of the first four patterns will be monitored and five more ignitions are planned during 1977.

The Company has acquired additional acreage on attractive prospects. A 640-acre tract in Saskatchewan near Lloydminster has been purchased. The land is directly offset by heavy oil production from the Aberfeldy pool on the east and from the Dulwich North pool on the West. Immediate drilling is planned.

The Company is participating in a gas play at Red Creek near Fort St. John in northeastern British Columbia. A farmin on 652 lease acres and 7 800 drilling reservation acres has been arranged. Two 652-acre lease parcels were also purchased at the B.C. Crown sale in March. The Company has a one-third interest in this multizone prospect. Drilling is planned this summer.

Although the National Energy Board has yet to publish its final report on Canadian crude oil supply and demand, in which a more certain policy to handle the separate licensing of heavy crude oil exports to the United States is expected, the Company is proceeding on the basis that statements from governments indicate support for programmes to increase production of heavy crude for eventual Canadian use. The Company has begun a programme to increase production at Lloydminster through development drilling and re-entering suspended producers. The Company is also involved with some twenty companies in studying the feasibility of a central upgrading plant to process heavy crude into a product which can be refined in existing Canadian refineries. Such a plant would require feedstock of 100 000 barrels of heavy crude daily, well

above the present heavy crude oil production in the Lloydminster area in both Alberta and Saskatchewan of some 30 000 barrels daily.

The Company looks to the future with optimism in anticipation that the governments' stated desire to increase Canadian oil and gas supply will be reflected in increased returns to the producer as price advances are implemented. It is anticipated that significant benefit from the improved marketing situation for heavy crude oil will be reflected in Company profits, particularly as prices for oil and gas are increased towards world levels.

Respectfully submitted,

R. E. McLennan
President

April 29, 1977

Calgary, Alberta

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Statement of Loss

For the Six Months Ended February 28, 1977

(with prior period figures for comparison)

	1977 (unaudited)	1976 (unaudited)
Sales and operating revenue	$2,004,453	$1,969,358
Expenses:		
Cost of sales and operating expenses	1,001,319	981,648
Selling, general and administrative expenses	370,506	312,477
Interest — on long-term debt	367,950	273,547
— on short-term debt	7,502	9,813
Depreciation, depletion and amortization	194,938	114,381
Minority interest in earnings of a subsidiary	1,128	2,538
Total expenses	1,943,343	1,694,404
Income from operations	61,110	[illegible]
Other Charges:		
Bonus on redemption of debenture	50,000	—
Bonus on cancellation of stock options with debenture holder	50,000	
Deferred finance charges written off on redemption of debenture	28,367	
Total other charges	128,367	—
(Loss) Income before income taxes	(67,257)	274,954
Income Taxes:		
Deferred	[illegible]	[illegible]
Provincial rebates — current	(56,286)	(65,385)
— deferred	(26,003)	(28,401)
Net income taxes	[illegible]	[illegible]
Net (loss) income	$ (24,419)	$ 223,245
(Loss) earnings per share	(.9)¢	8.2¢

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated Statement of Changes in Financial Position

For The Six Months Ended February 28, 1977

(with prior period figures for comparison)

	1977 (unaudited)	1976 (unaudited)
Working Capital Provided:		
Net (loss) income for the period	$ (24,419)	$ 223,245
Add items not requiring an outlay of funds:		
Depreciation	88,013	33,997
Depletion	94,998	64,028
Amortization	11,928	14,291
Deferred finance charges written off	28,367	—
Deferred income taxes — net	13,448	117,094
Minority interest in earnings of a subsidiary	1,128	2,538
Total working capital provided from operations	213,463	455,193
Increase in long-term debt	1,300,000	373,941
Issue of capital stock	100,000	6,825
Other assets	—	1,750
Total working capital provided	1,613,463	837,709
Working Capital Applied:		
Acquisition of gas, oil and mineral interests	552,795	870,944
Addition to transportation equipment and other assets	32,275	145,858
Paid or payable on long-term debt	1,080,037	330,418
Acquisition of shares of subsidiary company	—	13,500
Total working capital applied	1,665,107	1,360,720
Decrease in working capital	51,644	523,011
Working capital at beginning of the period	167,202	385,627
Working capital (deficiency) at end of period	$ 115,558	$ (137,384)

Canadian Hidrogas Resources Ltd.
Suite 1000
610 - 8th Ave. S.W.,
Calgary, Alberta T2P 1G5

Canadian Hidrogas Resources Ltd.

INTERIM REPORT

SIX MONTHS ENDED
FEBRUARY 29, 1976

TO THE SHAREHOLDERS:

The unaudited consolidated financial statements for the first six months of our fiscal year show a cash flow from oil and gas operations of $455,193 or approximately 16.7¢ per share. The similar period in 1975 reflected the propane, butane and special product operations as well and, therefore, the comparative figures are not relevant.

During the 1975 fiscal year the propane and butane operations were discontinued. The phase-out of the special products operations which began in the first quarter are continuing. The resulting gain or loss on the disposal of this portion of our operations will not likely be determined until the final quarter of this fiscal year, at which time the results will be reported.

The North Coleman gas field commenced production in late November 1975 and after experiencing the normal start-up difficulties with an operation of this nature it is now making a regular contribution to revenues. Our properties in the Princess gas field were put on stream in late December 1975 and are now contributing to cash flow.

Revenues from heavy oil production at Lloydminster have continued at approximately the same level experienced in the first quarter. This has been accomplished in spite of the low seasonal demand for heavy asphalt type crude, complicated by the reduction in crude oil exports to the United States which was imposed by the National Energy Board.

At the present time the production of the heavy oil is back up to normal resulting from the establishment of an export quota set by the National Energy Board requiring the buyers to take a specified minimum amount of this type of crude in each month.

Recently your Company entered into a Farm-out Agreement with a major utility company who, in a series of options, will drill up to twenty wells on the Company's properties. Upon the anticipated successful completion of these wells the proven reserves of the Company in these areas will be enhanced.

In the opinion of Management the Company has now successfully completed the transition to an operation which is confined to oil and gas exploration, development and production. The problems in building and staffing of such an operation are essentially behind us and we look forward to a future of continued growth and development in these areas.

Respectfully submitted,

Evan Bodrug

Evan W. G. Bodrug
President

CANADIAN HIDROGAS RESOURCES LTD.
and Subsidiaries

Consolidated Statement of Income
For the six months ended February 29, 1976
(with comparative figures for 1975 — as restated*)

	1976 (Unaudited)	1975 (Unaudited)
Sales and operating revenue	$1,969,358	$11,388,576
Expenses:		
Cost of sales and operating expenses	981,648	10,304,785
Selling, general and administrative expenses	312,477	559,594
Interest — long-term	273,547	118,842
— short-term	9,813	74,307
Depreciation, depletion and amortization	114,381	85,245
Total expenses	[illegible]	[illegible]
Income from operations	277,492	245,803
Income Taxes:		
Deferred	179,961	89,198
Current	—	[illegible]
Provincial rebates — current	(65,385)	(25,393)
— deferred	(27,802)	(9,689)
Total income taxes	86,774	91,729
Income before minority interest in earnings of a subsidiary	190,718	154,074
Minority interest in earnings of a subsidiary	2,460	2,713
Net income for the period	$ 188,258	$ 151,361
Earnings per share	6.9¢	5.6¢

* The 1976 figures do not include propane and butane operations nor special products operations, as these activities have either been discontinued or are being discontinued.

CANADIAN HIDROGAS RESOURCES LTD.
and Subsidiaries

Consolidated Statement of Changes in Financial Position
For the six months ended February 29, 1976
(with comparative figures for 1975 — as restated*)

	1976 (Unaudited)	1975 (Unaudited)
Funds Provided:		
Net income for the period	$ 188,258	$ 151,361
Add items not requiring an outlay of funds:		
Depreciation	33,997	50,536
Depletion	64,028	26,618
Amortization	14,291	8,091
Deferred income taxes — net	152,159	79,509
Minority interest in earnings of a subsidiary	2,460	2,713
Total funds provided from operations	455,193	318,828
Increase in long-term debt	373,941	1,737,000
Issue of capital stock	6,825	20,475
Mortgage receivable from a director	2,800	—
Other assets	1,750	—
Total funds provided	840,509	2,076,303
Funds Applied:		
Acquisition of gas, oil and mineral interests	870,944	1,409,993
Additions to transportation equipment and other assets	145,858	39,573
Paid or payable on long-term debt	330,418	351,419
Acquisition of shares of subsidiary company	13,500	56,608
Deferred expenses and financing costs	—	59,534
Total funds applied	1,360,720	1,917,127
(Decrease) increase in working capital for the period	(520,211)	159,176
Working capital (deficiency) at beginning of the period	343,627	(147,315)
(Deficiency) working capital at end of the period	$ (176,584)	$ 11,861

* The 1976 figures do not include propane and butane operations nor special products operations, as these activities have either been discontinued or are being discontinued.

Canadian Hidrogas Resources Ltd.
Suite 1000
610 - 8th Ave. S.W.,
Calgary, Alberta T2P 1G5

Canadian Hidrogas Resources Ltd.

INTERIM REPORT

**SIX MONTHS ENDED
FEBRUARY 28, 1975**

TO THE SHAREHOLDERS:

We are pleased to present to you our unaudited consolidated statements of income and changes in financial position for the six months ended February 28, 1975.

During this period gross revenues increased 31% over the comparative six month period of the prior year. Cost of sales, however, increased by 49%, reflecting the higher cost of propane and butane at the plant gate. This reduced margin on sales significantly affected income from operations and was the major factor in contributing to the lower comparative net income.

The generally warm winter on the North American Continent lessened the normal seasonal demand for our propane and butane, resulting in an inventory increase of approximately $1.5 Million. This inventory carry-over necessitated an increase in short-term borrowing and is reflected in the increase in short-term interest costs. At the time of this writing, however, substantially all inventories have been sold.

During this same period long-term interest costs also increased reflecting the increase in long-term debt of $1.4 Million, proceeds of which have been expended for the development of oil and gas properties. Income from these, and previous expenditures in development, will be reflected in future periods as the general emphasis of the Company's operations moves toward greater production, overshadowing the liquified petroleum gas marketing activity.

In the North Coleman area of Alberta your Company holds a 5% working interest. The Gas Contract has been signed and a contract for sulphur is being finalized. The Gas Contract provides for re-negotiation as of November 1, 1975 and it is expected that production will commence about June 1, 1975.

In the Princess area of Alberta six wells of a total programme of eighteen wells have been drilled during this period, all of which are potential producers; five in the Milk River and Medicine Hat zone and one in the Second White Specks; the remaining twelve wells will be drilled immediately after Spring break-up. The current contract provides for 60¢ per mcf but a re-negotiation of this price has been requested to be effective November 1, 1975. Canadian Hidrogas Resources Ltd. is the operator of this area and agreements are being finalized on the Plant and Gathering System. Production is expected to commence prior to November 1, 1975.

In the Lloydminster area of Alberta four exploratory wells have been drilled in newly acquired property all of which were successful. A new pool known as G.P.X. Pool was discovered, this pool was previously untapped in this area. The discovery of this pool will add substantially to the total proven reserves. Your Company has applied for and received approval for commingling of some of the oil production from different horizons which not only permits greater production to be taken from each well but cuts down the lifting costs.

Your Company looks to the future with optimism in light of the recent developments which point to an increased price for both oil and gas.

Respectfully submitted on
behalf of the Board of Directors,

Evan Boding

President

CANADIAN HIDROGAS RESOURCES LTD.
and Subsidiaries

Consolidated Statement of Income

For the six months ended February 28, 1975

(with comparative figures for 1974 — as restated)

	1975 (Unaudited)	1974 (Unaudited)
Sales and operating revenue	$11,388,576	$8,696,147
Expenses:		
Cost of sales and operating expenses	10,304,785	6,909,935
Selling, general and administrative expenses	559,594	413,077
Interest — long-term	118,842	56,417
— short-term	74,307	8,739
Depreciation, depletion and amortization	78,154	91,318
Minority interest in earnings of a subsidiary	5,841	—
	11,141,523	7,479,486
Income from operations	247,053	1,216,661
Deposits on tank car rentals written off	—	105,141
Net income before income taxes	247,053	1,111,520
Income taxes — deferred	92,743	543,030
— current	37,613	—
	130,356	543,030
Net Income	$ 116,697	$ 568,490
Earnings per share	4.3¢	23.0¢

CANADIAN HIDROGAS RESOURCES LTD.
and Subsidiaries

Consolidated Statement of Changes in Financial Position
For the six months ended February 28, 1975
(with comparative figures for 1974 — as restated)

	1975 (Unaudited)	1974 (Unaudited)
Funds Provided:		
Net income for the period	$ 116,697	$ 568,490
Add items which do not require an outlay of funds:		
Depreciation, depletion and amortization	78,154	91,318
Deferred income taxes	87,744	543,030
Deposits on tank car rentals written off	—	105,141
Total funds provided from operations	282,595	1,307,979
Increase in long-term debt	1,737,000	1,400,000
Issue of capital stock	6,825	200,000
Increase in minority interest	5,841	—
Total funds provided	$ 2,032,261	$2,907,979
Funds Applied:		
Acquisition of gas, oil and mineral interests	1,439,602	2,152,077
Additions to transportation equipment and other assets	39,573	46,000
Paid or payable on long-term debt	351,419	242,644
Deferred expenses and financing costs	59,534	(37,254)
Increase in investment of non-consolidated affiliated company	—	107,443
Total funds applied	1,890,128	2,510,910
Increase in working capital for the period	142,133	397,069
(Deficiency) working capital at beginning of the period	(147,315)	31,511
(Deficiency) working capital at end of the period	$ (5,182)	$ 428,580

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